

CDFI fund

Overview

The Community Development Financial Institutions (CDFI) Fund was created to expand the availability of credit, investment capital, and financial services in distressed urban and rural communities. The Fund was authorized by the Riegle Community Development and Regulatory Improvement Act of 1994, as a bipartisan initiative. By stimulating the creation and expansion of diverse community development financial institutions (CDFIs) and by providing incentives to traditional banks and thrifts through the Bank Enterprise Award (BEA) Program, the Fund's investments work toward building private markets, creating healthy local tax revenues, and empowering residents. The CDFI Fund provides relatively small infusions of capital to institutions that serve distressed communities and low-income individuals. The Fund's activities leverage private-sector investments from banks, foundations, and other funding sources. Since the Fund's creation, it has made more than \$430 million in awards to community development organizations and financial institutions.

CDFIs are specialized financial institutions that work in market niches that have not been adequately served by traditional financial institutions. These CDFIs provide a wide range of financial

products and services, including mortgage financing for first-time home-buyers, financing for needed community facilities, commercial loans and investments to start or expand small businesses, loans to rehabilitate rental housing, and financial services needed by low-income households and local businesses. In addition, these institutions provide services that help ensure that credit is used effectively, such as technical assistance to small businesses and credit counseling to consumers. CDFIs include community development banks, credit unions, loan funds, venture capital funds, and microenterprise loan funds, among others.

Initiatives

Community Development Financial Institutions Program

The Community Development Financial Institutions (CDFI) Program

uses limited federal resources to invest in and build the capacity of private, for-profit and non-profit financial institutions to provide capital and services to underserved people and communities. The Fund invests in CDFIs using flexible tools such as equity investments, loans, grants, and deposits, depending upon market and institutional needs. These needs are demonstrated by the applicant CDFI in its business plan and in its ability to raise comparable

non-federal matching funds, both requirements of the application process. The Fund evaluates each applicant CDFI in a manner similar to a private investor determining the investment-worthiness of an institution, including assessing financial performance, management capacity, and market analysis. Thus, the Fund is able to effectively assist these organizations to enhance their ability to meet community needs, develop, and grow.

The CDFI Program has four separate components: the Core Component; the Intermediary Component; the Small and Emerging CDFI Assistance (SECA) Component; and the Native American CDFI Technical Assistance (NACTA) Component. The **Core Component** is the Fund's main program under which CDFIs, or entities proposing to become CDFIs, may apply for financial and technical assistance. The **Intermediary Component** is created specifically for intermediaries who focus primarily on the financing of other CDFIs. The **SECA Component** is designed to better meet the unmet capacity needs of CDFIs, or entities proposing to become CDFIs, who have significant potential for increasing their community development impact. Through SECA, eligible entities may receive financial and/or technical assistance. The **NACTA Component** is

designed to provide technical assistance grants that will specifically benefit Native American, Alaska Native and Native Hawaiian communities and to promote the development of CDFIs that serve these communities. The first round of the NACTA component will begin in the Fall of 2001.

Through the first six rounds of the CDFI Program, the Fund has made \$352 million in investments in CDFIs. These organizations serve both rural and urban areas in local, regional, statewide, and multi-state markets in 50 states and the District of Columbia, Puerto Rico, and the Virgin Islands.

A Notice of Funds Availability for the 2002 CDFI Program – the **Core/Intermediary, SECA, and NACTA Components** – was published in the *Federal Register* on September, 24, 2001. The application deadline for the Core/Intermediary Component is December 11, 2001. Subject to funding availability, the Fund expects that it may award \$36.9 million under the Core/Intermediary Component of the CDFI Program. The application deadline for **SECA Component and NACTA Component** is January 24, 2002. The Fund expects that it may award \$5.6 million under the SECA Component and \$3.5 million under the NACTA Component.

Bank Enterprise Award Program

The Bank Enterprise Award (BEA) Program recognizes the key role played

by traditional financial institutions in community development lending and investing. It provides incentives for these regulated banks and thrifts to invest in CDFIs and to increase their lending and provision of financial services in distressed communities. The BEA Program supports the community reinvestment efforts of these financial institutions.

Through the first six rounds of the BEA Program, the Fund has awarded over \$181 million to banks and thrifts. To date, banks and thrifts receiving awards have provided more than \$959 million in financial support or technical assistance directly to CDFIs, and more than \$2.5 billion to distressed communities in the form of direct loans, investments and services.

A Notice of Funds Availability for the 2002 BEA Program was published in the *Federal Register* on September 24, 2001. The application deadline is November 13, 2001. Subject to funding availability, the Fund expects that it may award \$16.5 million under the BEA Program.

New Markets Tax Credit Program

On December 21, 2000, the Community Renewal Tax Relief Act of 2000 was signed into law. The law provides for \$15 billion in tax incentives under the New Markets Tax Credit Program to help spur economic growth in new markets in urban and rural communities across the country. By

making an equity investment in an eligible “community development entity” (CDE), individual and corporate investors can receive a New Markets Tax Credit worth more than 30 percent of the amount invested over the life of the credit, in present value terms.

Native American Lending Study and Action Plan

The CDFI Fund has conducted a study on lending and investment practices on Indian reservations and other lands held in trust by the United States. Input was solicited through a series of 13 regional workshops throughout the United States, and two roundtable meetings. Workshop participants included tribal leaders, tribal economic and financial planners, bankers, federal agencies, bank regulators, secondary market organizations, state agencies and others. The participants in these workshops identified barriers to lending and investment on Native American lands; and developed recommendations for eliminating the barriers. The findings have assisted the CDFI Fund in drafting a final report to the President and Congress.

For More Information

Please visit the CDFI Fund's website at www.treas.gov/cdfi, or call the CDFI Fund at (202) 622-8662.

Updated October 10, 2001

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